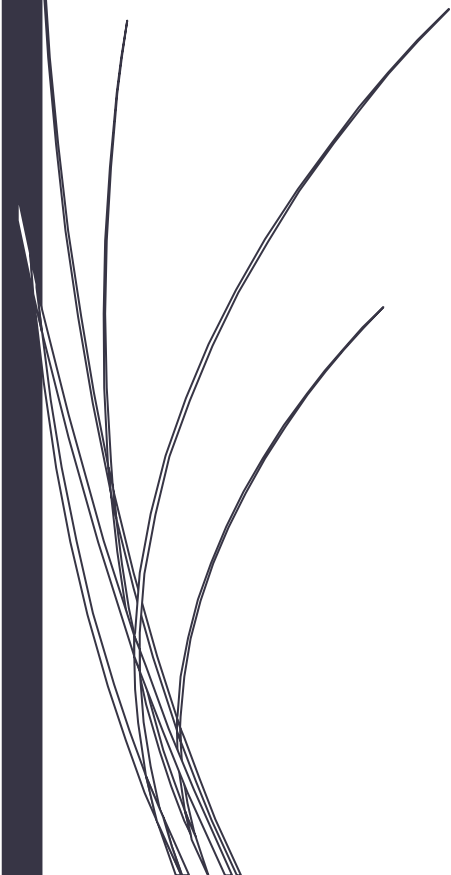




# Guidance Notes

In answering the  
due diligence questions  
for Guiding Principles 3 and 4



**Due Diligence Questions: GP3 – No Significant Harm to the Environment**

No	Guidance Notes
----	----------------

**GP3 – General**

1.1 Risk identification (General)

a) Use existing internal databases or any other publicly available source to screen for the Client’s related legal/ negative news vis-à-vis climate/ environmental related issues.

**see SC5 Climate Data Catalogue Data Items:**

No.127 - Litigation claims and cases

1.2 Risk management (General)

a) The client should list down measures being taken to address the climate/ environmental concerns. This may include obtaining necessary approvals or permits under the jurisdiction where it operates.

**GP3 – Pollution**

2.1 Risk identification (Pollution)

a) Hazardous chemicals and materials  
 Hazardous chemicals and materials include Dichlorodiphenyltrichloroethane (“DDT”), Polychlorinated biphenyl (“PCBs”) and other chemicals listed in the Industry Code of Practice on Chemical Classification and Hazard Communication issued by the Department of Occupational Safety and Health Malaysia (“DOSH”), as well as those listed in international conventions such as the Stockholm Convention on Persistent Organic Pollutants, the Montreal Protocol, or Basel Convention (Annex VIII hazardous wastes list).

Note: See list of **Hazardous Substances** under Regulation 15, Environment Quality Act 2014.

Waste and pollutants

The Client should avoid the release and use of waste and pollutants or, when avoidance is not feasible but still within permissible limits, minimise and/or control the intensity and mass flow of their release to air, water and/or soil. Assessment of waste and pollutions can be considered in accordance with the Environmental Quality Act (1974).

Specifically for water pollution:

Water quality parameters that can be assessed include, but not limited to the following:

- Biochemical oxygen demand (“BOD”)
- Chemical oxygen demand (“COD”)
- Total suspended solids (“TSS”)
- Mass of nutrients (e.g. nitrogen and phosphorous)
- Mass of inorganic pollutants (e.g. heavy metals and chemical compounds)

*Sectoral data can be used as a benchmark in assessing the significance of hazardous chemical/ materials and waste/ pollutants produced by the Client.*

**see SC5 Climate Data Catalogue Data Items:**

No.84 - Waste Management Indicators (e.g. Solid Waste Disposed)

No. 85 - Waste recycled

No.86 - Treated Wastewater

- No.88 - Water management indicators (e.g. water allocation and management)
- No.89 - Water quality at river basins
- No. 90 - Marine water quality
- No. 91 - Water: Standardised Precipitation - Evapotranspiration Index
- No. 92 - Soil Water Index
- No. 93 - Groundwater quality
- No. 103 - Volume of pesticides
- No. 104 - Volume of plastics
- No. 105 - Coastal and freshwater eutrophication
- No. 106 - Air Quality
- No. 107 - Air pollution index ("API")

## 2.2 Risk management (Pollution)

### a) Hazardous chemicals and materials

The Client should implement internal control measures for hazardous waste management relevant to the substances resulting from its business activities, in line with regulatory requirements. This should cover production cycles from hazardous waste generation, transportation, recycling, disposal and treatment.

For further reference, can refer to [DOE's Hazardous Substances Management](#).

### Waste and pollutants

Where waste cannot be recovered or reused, the Client should treat, destroy, or dispose of waste in an environmentally sound manner that includes the appropriate control of emissions and residues resulting from the handling and processing of the waste material.

- The Client should demonstrate within its waste and effluent management effort the separation process between hazardous waste (listed by the regulators), characteristic waste (not listed, but nevertheless might still be hazardous due to it being ignitable, corrosive, reactive or toxic) and universal waste. Hazardous waste would require stricter handling than characteristic and universal wastes.
- The Client should provide details of the key waste streams generated and how these are managed and disposed of, including any particular waste management initiatives that have been implemented to minimise and/or recycle waste.
- The Client should, as best practice, report evidence of reduction in plastic use and waste from operations, identifying the proportion of recycled plastic products and proportion of virgin polymer use and single-use plastics, with indications on reduction targets.
- The Client should, as best practice, regularly report air quality parameters of air emissions identified as harmful pollutants by the relevant regulations and international bodies for its industry. This shall include nitrous oxides ("NOx"), sulphur oxides ("SOx"), persistent organic pollutants ("POP"), volatile organic compounds ("VOC"), hazardous air pollutants ("HAP"), particular matter ("PM") and other standard categories of air pollutants. For further reference, can refer to: [DOE's Environmental Quality Air Regulations 1978](#) and [DOE's guidelines on emission monitoring systems](#).
- A Client in the agriculture sector should demonstrate that it has implemented an integrated pest management and/or integrated vector management approach, where the use of chemical pesticides has minimal effects on non-target species and the environment. Pest management activities include the use of chemical pesticides, where the Client should select chemical pesticides that are low in human toxicity, that are known to be effective against the target species and have minimal effects on non-target species as well as the environment. The selection of chemical pesticides should consider its packaging (i.e. packaged in safe containers), labelling (i.e. clearly labelled for safe and proper use) and that the pesticides have been manufactured by an entity licensed by relevant regulatory agencies.

For further reference, can refer to [DOE's Regulations on Scheduled Waste Management](#).

## GP3 – Ecosystem & Biodiversity

### 3.1 Risk identification (Ecosystem & Biodiversity)

a) Environmentally sensitive areas (“ESAs”) or key biodiversity areas (“KBAs”) typically refer to geographic regions or locations that are recognised for their high ecological significance and the presence of diverse and often unique species of flora and fauna. Such areas are considered important for the conservation of biodiversity due to the richness and variety of life forms they support. These areas are commonly:

- Protected areas on national, regional, and international lists
- Areas of high biodiversity value and high conservation value (“HCV”)
- Biodiversity hotspots
- IUCN Protected Area Management Categories
- IUCN Green List
- UNESCO Man and the Biosphere Reserves
- UNESCO Natural World Heritage Sites
- Ramsar Convention

The Client should disclose the location of its business operations that are in or adjacent to ESAs and KBAs. As best practice, this is to be done by including GPS coordinates in decimal degrees, i.e. Decimal degrees (“DD”): 41.40338, 2.17403. Degrees, minutes, and seconds (“DMS”): 41°24’12.2”N 2°10’26.5”E. Degrees and decimal minutes (“DMM”): 41 24.2028, 2 10.4418.

To identify key biodiversity areas, the Client can use data from tools such as [Integrated Biodiversity Assessment Tool](#) (“IBAT”) and [Global Forest Watch](#). Maps of ESAs can be referred to those published in the [National Physical Plan 3 and 4](#).

see [SC5 Climate Data Catalogue Data Items](#):

No. 95 - Map of Biodiversity Risks Hotspots (e.g. high conservation value forests, high biodiversity value ecosystems etc.)

No. 97 - Map of ESAs

No. 98 - Forest Change (e.g. Forest Loss, Tree Cover Loss, Location of Tree Cover Loss, FAO Deforestation)

b) Business activities may impact nature through, but not limited to the following:

- **Habitat Destruction:** Clearing land/ deforestation for infrastructure, agriculture, or other business activities can lead to the destruction of natural habitats, directly impacting the species living there.
- **Invasive Species:** The introduction of non-native species through business activities (intentionally or unintentionally) can disrupt local ecosystems, outcompeting or preying on native species.

To gain a comprehensive understanding of the Client's operations, including production processes and distribution channels to identify key activities that may have an impact on biodiversity, the following can be considered:

- Lifecycle analysis of the Client's products or services to understand the environmental impact throughout their entire lifecycle.
- Land use changes associated with the Client's operations. This includes deforestation, habitat conversion, or changes in land cover.
- Threat to endangered or vulnerable species (e.g. protected species on national and regional conservation lists and IUCN Red List) and consider the presence of invasive species associated with the Client's operations.

Examples of tools that can be used to include [ENCORE](#), [WWF's Biodiversity Risk Filter](#)<sup>1</sup> (“BRF”) and [IBAT](#).

<sup>1</sup> WWF's BRF tool uses location-specific company and supply chain data to help companies screen, assess and respond to biodiversity risks and potential opportunities across direct operations and value chains. The tool launched in January 2023, as part of an integrated WWF Risk Filter Suite, which will also host WWF's Water Risk Filter tool.

### 3.2 Risk management (Ecosystem & Biodiversity)

- a) Internal measures incorporated into the processes by the Client may include the following:
- Produce and expand production exclusively on lands that were deforested or converted prior to any agreed cut-off date.
  - Rehabilitate degraded land and preserve ecosystem services through responsible production practices on already converted land.
  - Reduce the need for expansion into natural ecosystems by improving smallholders' yields through the implementation of more sustainable and efficient agricultural practices.
  - Adopt No Deforestation, Peat, and Exploitation ("NDPE") policy.
  - Have science-based metrics that integrate biodiversity (e.g. IUCN Guidelines for planning and monitoring corporate biodiversity performance and Species Threat Abatement and Restoration ("STAR") metric).

### GP3 – Efficient Use of Resources

#### 4.1 Risk identification (Efficient Use of Resources)

- a) Clients with high dependencies on water/other natural resources must show good resource management within their business to ensure the sustainability of the natural resources. Sectoral data can be used as a benchmark in assessing the significance of water/other natural resource consumption within a Client's business operations. Tools such as ENCORE and WWF's BRF can be used to identify and assess a Client's dependence on natural capital based on its geographic location and sector.

**see [SC5 Climate Data Catalogue Data Items](#):**

- No. 87 - Water consumption
- No. 88 - Water management indicators (e.g. water allocation and management)
- No. 89 - Water quality at river basins
- No. 90 - Marine water quality
- No. 91 - Water: Standardised Precipitation - Evapotranspiration Index
- No. 92 - Soil Water Index
- No. 93 - Groundwater quality
- No. 94 - Water stress area

#### 4.2 Risk management (Efficient Use of Resources)

- a) Internal measures incorporated into the processes by the Client may include the following:
- Use appliances that fulfil requirements of relevant national legislations
  - Use of additional technically feasible resource conservation measures within the Client's operations
  - Use of alternative resource supplies to reduce total demand for resources to be within the available supply
  - Evaluation of alternative project locations to areas where resources are abundant
  - Disclose resources and inputs used according to an international standard
  - Disclose organisms that was exploited for commercial uses, including wild animal and plant species
  - Disclose remediation measures related to direct exploitation of resources, to avoid overexploitation negative effects on rare, endangered or threatened species

### GP3 – GHG Emissions

#### 5.1 Risk identification (GHG Emissions)

- a) Annual GHG assessment must be complete, accurate, transparent, consistent, and relevant. Factors to consider:
- The intensity of the company's GHG emissions in comparison with the industry average or other acceptable benchmark (e.g. sectoral data)
  - Indicating GHG emission verification or assurance status, if any

Examples of GHG emission metrics:

- Absolute Scope 1, Scope 2, and Scope 3 GHG emissions
- Weighted average carbon intensity
- GHG emissions per MWh of electricity produced/ per physical unit (e.g. building floor area) / per economic unit (e.g. revenue)

The production and consumption of energy contribute significantly to GHG emissions, primarily through the burning of fossil fuels such as coal, oil, and natural gas. The key aspects related to energy usage that are considered in assessing GHG emissions include:

1. **Scope 1 Emissions:** These are direct emissions from sources that are owned or controlled by the client. This can include on-site combustion of fossil fuels for heating, cooling, or power generation.
2. **Scope 2 Emissions:** These are indirect emissions associated with the generation of purchased or acquired electricity, heat, or steam. The carbon intensity of the electricity grid in the region where the client operates plays a significant role in determining Scope 2 emissions. Organisations can assess and report these emissions by using factors such as the emissions factor of the grid.
3. **Scope 3 Emissions:** These are indirect emissions that occur in both upstream and downstream activities of the client. Energy usage throughout the transportation of goods, and the use of products and services by clients fall under Scope 3 emissions.

To quantify the GHG emissions from energy usage, client may often use emission factors that represent the amount of carbon dioxide or other greenhouse gases emitted per unit of energy consumed. These factors can vary based on the type of energy source (e.g., coal, natural gas, renewable sources) and the location.

see [SC5 Climate Data Catalogue Data Items](#):

- No. 1 - Greenhouse Gas (GHG) emissions Scope 1, Scope 2
- No. 2 - GHG emissions Scope 3
- No. 3 - GHG inventory
- No. 5 - GHG emission intensity
- No. 6 - Economic sectors' contribution to gross domestic product (GDP) and GHG emissions
- No. 7 - Vehicle GHG emissions
- No. 11 - Emission intensity performance of buildings in Malaysia
- No. 12 - Emission factors by Scope 1, 2 and 3
- No. 13 - Emission intensity per revenue
- No. 14 - Monitoring of insurance-related emissions
- No. 16 - Source of the global warming potential (GWP) rates used

5.2 Risk management (GHG Emissions)

- a) Common measures to reduce emission/decarbonisation strategy, include but not limited to:
- Use renewable energy
    - Onshore and/or offshore wind power generation
    - Onshore and floating solar photovoltaic ("PV") power generation
  - Rehabilitation, retrofitting and/or replacement with energy-efficient technology
    - Replacement of existing heating/cooling systems in buildings with non-fossil fuel powered systems
    - Energy-efficient vehicles and transport (e.g. hybrid cars)
  - Restoring, maintaining, conserving, and strengthening of natural land-based carbon stock and sinks (for LULUCF only)
    - Avoidance/ suspension of deforestation
    - Afforestation and reforestation
    - Restoration or rehabilitation of forests, croplands, peatlands, grasslands and wetlands
    - Sustainable forest and agricultural management
    - Forest and peatland conservation

Due Diligence Questions: GP4 – Remedial Measures

No	Guidance Notes
Plans undertaken for remediation of significant harm to the environment	
b)	<p>The planned remediation measures should be significant enough to address the issues in concern and commensurate with the Client's capital structure, risk appetite, complexity, activities, size, and other appropriate risk-related factors. The plan should have a clearly defined and realistic timeline for completion.</p> <p>For instance, the Client's net zero target can include the following criteria:</p> <ul style="list-style-type: none"><li>• Targets should have clear and detailed plans outlining the specific steps and strategies to achieve them.</li><li>• Targets should be designed in consideration of the Client's strategy and risk management processes. The Client should set targets at the level (e.g. aggregate, sector, portfolio) that best suits its business activities and strategy.</li><li>• Targets should be linked to defined metrics in order to measure and track progress against targets.</li></ul>
c)	<p>The Client should engage relevant impacted stakeholders for better responsiveness, coordination and effectiveness of risk reduction and management policies targeted at addressing the identified significant harm.</p>